

From: "Garnett, Paul" <PWGarnett@SWIDLAW.com>
To: 'Darrell Whitis' <dwhitis@mail.state.tn.us>
Date: 5/18/99 3:18pm
Subject: KMC Telecom III, Inc. Docket #99-00211

REC'D TN
REGULATORY AUTH.

'99 MAY 18 PM 4 48

OFFICE OF THE
EXECUTIVE SECRETARY

In response to your data request sent by e-mail on May 14, 1999, please find herein information provided by KMC Telecom III, Inc. ("KMC III") regarding the balance sheet of its parent, KMC Telecom III Holdings, Inc. ("KMC III Holdings"). The following information further clarifies the financial information previously provided to you regarding KMC III Holdings' balance sheet.

1) The TRA requests the detailed breakdown of the long term debt and the intercompany debt. Which companies lent money to KMC Telecom III Holdings, Inc. for the intercompany debt account?

The \$161 million in long term debt is from KMC III Holdings borrowing on a credit facility from its lender, Lucent, that KMC III Holdings has in place to purchase equipment from Lucent. The \$380 million in intercompany debt is proceeds from a \$100 million preferred stock offering and a \$300 million high yield bond offering -- currently underway -- that were raised by KMC Telecom Holdings, Inc. and loaned to KMC III Holdings.

2) In addition, your E-mail mentioned \$315,000,000 of long term debt available to fund KMC III's operations. Is this \$315,000,000 how KMC Telecom III Holdings, Inc.'s obtained \$314,631,000 in cash and cash equivalents for the 1999 projected balance sheet?

The source of the \$314 million cash and cash equivalents on KMC III Holdings' 1999 balance sheet arises from an intercompany loan from KMC Telecom Holdings, Inc. to KMC III Holdings which utilized the proceeds from the preferred stock and high yield bond offerings discussed above. These funds will be used in future years for capital spending and funding start-up operating losses.

Please do not hesitate to call or e-mail if you have any additional questions.

Paul W. Garnett
Swidler Berlin Shereff Friedman, LLP
3000 K Street, NW
Suite 300
Washington, DC 20007
1-202-945-6925 (tel)
1-202-424-7643 (fax)

The preceding E-mail message contains information that is confidential, may be protected by the attorney/client or other applicable privileges, and may constitute non-public information. It is intended to be conveyed only to the designated recipient(s). If you are not an intended recipient of this message, please notify the sender at 202-945-6925. Unauthorized use, dissemination, distribution, or reproduction of this message is strictly

prohibited and may be unlawful.

CC: "Minsky, Kevin" <KDMinsky@SWIDLAW.com>